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**SouthGobi
Resources**
SOUTHGOBI RESOURCES LTD.
南戈壁資源有限公司*

(a company continued under the laws of British Columbia, Canada with limited liability)
(Stock Code: 1878)

**SouthGobi Resources announces second quarter 2016
financial and operating results**

HONG KONG – SouthGobi Resources Ltd. (TSX: **SGQ**, HK: **1878**) (the “Company” or “SouthGobi”) today announced its financial and operating results for the three and six months ended June 30, 2016.

Please see the attached announcement for more details. The information which is available at www.sedar.com per the attached announcement is also available at www.hkexnews.hk.

By order of the Board
SouthGobi Resources Ltd.
Mr. Ningqiao Li
Chairman

Hong Kong, August 15, 2016

As of the date of this announcement, the executive directors are Messrs. Ningqiao Li, Aminbuhe and Yulan Guo; the independent non-executive directors are Messrs. Zhu Liu, Mao Sun and Ms. Jin Lan Quan; the non-executive director is Mr. Huiyi Wang.

* For identification purposes only

SouthGobi Resources announces second quarter 2016 financial and operating results

HONG KONG – SouthGobi Resources Ltd. (TSX: **SGQ**, HK: **1878**) (the “Company” or “SouthGobi”) today announced its financial and operating results for the three and six months ended June 30, 2016. All figures are in U.S. Dollars unless otherwise stated.

SIGNIFICANT EVENTS AND HIGHLIGHTS

The Company’s significant events and highlights for the three months ended June 30, 2016 and subsequent period to August 15, 2016 are as follows:

- **Operating results** – The Company continues to operate under difficult market conditions as prices for coal remained weak in China through the second quarter of 2016. The impact of these conditions on the Company’s operations continues to be exacerbated given the Company’s liquidity constraints. The Company sold 0.82 million tonnes of its coal products during the quarter compared to 0.19 million tonnes in the second quarter of 2015. The production for the second quarter of 2016 was 0.67 million tonnes compared to 0.62 million tonnes for the second quarter of 2015.
- **Shareholder loan** – On May 16, 2016, Turquoise Hill Resources Limited (“Turquoise Hill”) signed a deferral letter agreement with the Company (“May 2016 Deferral Letter Agreement”), in which Turquoise Hill agreed to a limited and circumscribed deferral of repayment of all remaining amounts and obligations now and hereafter owing under the Turquoise Hill shareholder loan (“TRQ Loan”) to December 29, 2017. The Company has agreed to repay \$0.15 million per month starting on May 31, 2016 and ending on April 28, 2017; \$0.2 million per month starting on May 31, 2017 and ending on December 29, 2017, at which time all remaining obligations will become due. Interest shall continue to accrue on all outstanding obligations at 12-month US dollar LIBOR rate. The amount due in May to July 2016 has been paid as at August 15, 2016.
- **Class Action Lawsuit** – On May 24, 2016, the Ontario Superior Court of Justice granted the Company leave to appeal the decision made on November 5, 2015, which granted the plaintiff permission to commence an action claiming damages under the Ontario Securities Act with respect to the Company’s restatement of financial statements as previously disclosed in the Company’s public filings.

The plaintiff has also appealed. The Ontario Court of Appeal granted an adjournment of the plaintiff's original hearing date of June 27, 2016, pending the expected consolidation of the Divisional Court appeal brought on behalf of the Company. The parties have consented to a consolidation of the appeals in principle and are negotiating the terms of the Consent Order. It is expected that the Motion seeking consolidation on consent will be filed with the Court in August and the Court of Appeal will deal with the consolidation quickly. Assuming that the Court of Appeal will grant the consent order, the appeals will be perfected in September and heard together in the spring of 2017.

- ***China Investment Corporation ("CIC") convertible debenture (the "CIC Convertible Debenture")*** – On July 13, 2016, the Company executed deferral agreement with CIC which covers outstanding deferred cash interest obligations and associated costs of \$18.8 million as of July 13, 2016 and the next Issue Date Anniversary Cash Interest payment of \$8.1 million due on November 19, 2016. Pursuant to the deferral agreement, the Company has agreed to repay \$1.3 to \$1.4 million monthly from July to November 2016 and repay \$20.7 million on December 19, 2016. In consideration for the deferred payments of \$18.8 million, the Company will pay a deferral fee at a rate of 6.4% per annum to CIC. The interest due in July 2016 has been paid as at August 15, 2016.

Although CIC and the Company had finalized the terms of a deferral of CIC interest payments at the end of the second quarter, a formal written agreement had not been executed as at June 30, 2016. As a consequence, International Accounting Standard 1 ("IAS 1") required the Company to classify the entire balance of the CIC Convertible Debenture as a current liability as at June 30, 2016, notwithstanding the fact that CIC had agreed to the terms of the deferral and had not indicated any intention to deliver notice of default or accelerate the maturity of the debenture. Following the execution of the deferral agreement on July 13, 2016, the CIC Convertible Debenture met the requirements of IAS 1. The Company anticipates that both the debt host and the fair value of the embedded derivative will be classified as a non-current liability going forward, unless a future event of default occurs under the terms of the CIC Convertible Debenture.

- ***Short-term bridge loan*** – The Company repaid the first tranche of the short-term bridge loan of \$4.9 million on July 26, 2016. During June and July 2016, the Company drew the second tranche of \$5.0 million. \$1.5 million and \$3.5 million will mature in March and April 2017, respectively.
- ***Retirement of a Director*** – Mr. Pierre Lebel retired as Lead Director and Independent Non-Executive Director on June 30, 2016.
- ***Going Concern*** – As at the date hereof, the Company is focused on securing additional sources of financing and continues to minimize uncommitted capital expenditures in order to pay the interest due under the CIC Convertible Debenture, the short-term bridge loan, the TRQ Loan and the bank loan, meet the Company's obligations as they fall due and achieve its business objectives in 2016. However,

there is no guarantee that the Company will be able to successfully secure additional sources of financing. Unless the Company acquires additional sources of financing and/or funding in the short term, the ability of the Company to continue as a going concern is threatened. If the Company is unable to continue as a going concern it may be forced to seek relief under applicable bankruptcy and insolvency legislation. See section “Liquidity and Capital Resources” for details. As at August 15, 2016, the Company had cash of \$0.8 million.

OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Operational Data

	Three months ended June 30, 2016		2015	Six months ended June 30, 2016		2015
Sales Volumes, Prices and Costs						
Premium semi-soft coking coal						
Coal sales (millions of tonnes)		–		0.02		0.02
Average realized selling price (per tonne) ⁽ⁱ⁾	\$	–	\$	23.37	\$	21.38
Standard semi-soft coking coal						
Coal sales (millions of tonnes)		0.52		0.11		0.16
Average realized selling price (per tonne) ⁽ⁱ⁾	\$	16.27	\$	19.97	\$	17.40
Thermal coal						
Coal sales (millions of tonnes)		0.30		0.06		0.19
Average realized selling price (per tonne) ⁽ⁱ⁾	\$	9.17	\$	10.47	\$	9.18
Total						
Coal sales (millions of tonnes)		0.82		0.19		0.37
Average realized selling price (per tonne) ⁽ⁱ⁾	\$	13.65	\$	17.42	\$	14.92
Raw coal production (millions of tonnes)		0.67		0.62		1.04
Direct cash costs of product sold (per tonne) ⁽ⁱⁱ⁾	\$	12.47	\$	15.57	\$	10.17
Mine administration cash costs						
of product sold (per tonne) ⁽ⁱⁱ⁾	\$	2.32	\$	7.90	\$	1.76
Total cash costs of product sold (per tonne) ⁽ⁱⁱ⁾	\$	14.79	\$	23.47	\$	11.93
Other Operational Data						
Production waste material moved						
(millions of bank cubic meters)		1.82		3.62		2.54
Strip ratio (bank cubic meters of waste material						
per tonne of coal produced)		2.71		5.87		2.43
Lost time injury frequency rate ⁽ⁱⁱⁱ⁾		0.00		0.00		0.00

- (i) *Average realized selling price is presented before deduction of royalties and selling fees.*
- (ii) *A non-IFRS financial measure, see “Non-IFRS Financial Measure” section. Cash costs of product sold exclude idled mine asset cash costs.*
- (iii) *Per 200,000 man hours and calculated based on a rolling 12 month average.*

Overview of Operational Data

The Company ended the second quarter of 2016 without a lost time injury. As at June 30, 2016, the Company has a lost time injury frequency rate of nil per 200,000 man hours based on a rolling 12 month average.

For the three months ended June 30, 2016

Market conditions and prices for coal remained weak in China through the second quarter of 2016. The impact of these conditions was exacerbated given the depreciation of Renminbi against USD. The Company sold 0.82 million tonnes of its coal products during the second quarter of 2016 compared to 0.19 million tonnes for the second quarter of 2015. The Company is pacing production with current and expected demand, production was 0.67 million tonnes for the quarter as compared to 0.62 million tonnes for the second quarter of 2015.

For the six months ended June 30, 2016

During the first six months of 2016 market conditions and prices for coal remained weak in China. The Company sold 1.70 million tonnes of its coal products during the first six months of 2016 compared to 0.37 million tonnes for the first six months of 2015.

The production in the first six months of 2016 was higher than the first six months of 2015 as a result of pacing production with the current and expected demand.

Summary of Financial Results

	Three months ended June 30,		Six months ended June 30,	
<i>\$ in thousands, except per share information</i>	2016	2015	2016	2015
Revenue ^{(i),(ii)}	\$ 10,361	\$ 2,951	\$ 23,088	\$ 4,536
Cost of sales ⁽ⁱⁱ⁾	(23,105)	(11,835)	(42,185)	(29,511)
Gross loss excluding idled mine asset costs	(9,926)	(5,017)	(10,975)	(6,246)
Gross loss including idled mine asset costs	(12,744)	(8,884)	(19,097)	(24,975)
Other operating income/(expenses)	812	(19,450)	(899)	(18,479)
Administration expenses	(1,826)	(1,961)	(3,468)	(3,388)
Evaluation and exploration expenses	(52)	22	(99)	(56)
Loss from operations	(13,810)	(30,273)	(23,563)	(46,898)
Finance costs	(5,377)	(5,222)	(10,845)	(11,605)
Finance income	324	273	296	16
Share of earnings of a joint venture	256	151	339	133
Income tax expense	(23)	(1)	(258)	(1)
Net loss	(18,630)	(35,072)	(34,031)	(58,355)
Basic and diluted loss per share	\$ (0.07)	\$ (0.15)	\$ (0.13)	\$ (0.25)

(i) Revenue is presented after the deduction of royalties and selling fees.

(ii) Revenue and cost of sales relate to the Company's Ovoot Tolgoi Mine within the Coal Division operating segment. Refer to note 3 of the condensed consolidated interim financial statements for further analysis regarding the Company's reportable operating segments.

Overview of Financial Results

For the three months ended June 30, 2016

The Company recorded an \$13.8 million loss from operations in the second quarter of 2016 compared to a \$30.3 million loss from operations in the second quarter of 2015. The operations for the three months ended June 30, 2016 were impacted by continuing difficult market conditions and weaker coal prices experienced by the Company.

Revenue was \$10.4 million in the second quarter of 2016 compared to \$3.0 million in the second quarter of 2015. The Company sold 0.82 million tonnes of coal at an average realized selling price of \$13.65 per tonne in the second quarter of 2016 compared to sales of 0.19 million tonnes at an average realized selling price of \$17.42 per tonne in the second quarter of 2015. The decrease in the average realized selling price mainly resulted from continued difficult market conditions as well as the depreciation of Renminbi against USD. The product mix for the second quarter of 2016 consisted of approximately 63% of standard semi-soft coking coal and 37% of thermal coal compared to approximately 69% of premium and standard semi-soft coking coal and 31% of thermal coal in the second quarter of 2015.

The Company's revenue is presented after the deduction of royalties and selling fees. The Company's effective royalty rate for the second quarter of 2016, based on the Company's average realized selling price of \$13.65 per tonne, was 6.9% or \$0.95 per tonne compared to 10.7% or \$1.86 per tonne based on the average realized selling price of \$17.42 per tonne in the second quarter of 2015.

Royalty regime in Mongolia

The royalty regime in Mongolia is evolving and has been subject to change since 2012.

On February 1, 2016, the Government of Mongolia issued a resolution in connection to the royalty regime. From February 1, 2016 onwards, royalties are calculated based on the actual contract price in which transportation cost to the Mongolia border should have been included. If such transportation cost was not included in the contract, the relevant transportation costs, custom documentation fees, insurance and loading cost should be estimated for the calculation of royalties. In the event that the calculated sales price as described above differs from the contract sales price of other entities in Mongolia (same quality of coal and same border crossing) by more than 10%, the calculated sales price will be deemed to be "non-market" under Mongolian tax law and the royalty will then be calculated based on a reference price as determined by the Government of Mongolia.

Cost of sales was \$23.1 million in the second quarter of 2016 compared to \$11.8 million in the second quarter of 2015. Cost of sales comprises operating expenses, share-based compensation expense, equipment depreciation, depletion of mineral properties, coal stockpile inventory impairments and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a non-IFRS financial measure, see section "Non-IFRS Financial Measures" for further analysis) during the period.

<i>\$ in thousands</i>	Three months ended June 30,	
	2016	2015
Operating expenses	\$ 10,488	\$ 4,571
Share-based compensation expense/(recovery)	(3)	4
Depreciation and depletion	6,253	832
Impairment of coal stockpile inventories	<u>3,549</u>	<u>2,561</u>
Cost of sales from mine operations	20,287	7,968
Cost of sales related to idled mine assets	<u>2,818</u>	<u>3,867</u>
Cost of sales	<u>\$ 23,105</u>	<u>\$ 11,835</u>

Operating expenses in cost of sales were \$10.5 million in the second quarter of 2016 compared to \$4.6 million in the second quarter of 2015. The increase in operating expenses is primarily related to the increase in sales volume from 0.19 million tonnes in the second quarter of 2015 to 0.82 million tonnes in the second quarter of 2016.

Cost of sales in the second quarter of 2016 and 2015 included coal stockpile impairments of \$3.5 million and \$2.6 million, respectively, to reduce the carrying value of the Company's coal stockpiles to their net realizable value. The coal stockpile impairments recorded in both the second quarter of 2016 and 2015 reflected the challenging coal market conditions and primarily related to the Company's higher-ash products.

Cost of sales related to idled mine asset costs primarily consisted of period costs, which were expensed as incurred and included mainly depreciation expense. Cost of sales related to idled mine assets in the second quarter of 2016 included \$2.8 million of depreciation expenses for idled equipment compared to \$3.9 million in the second quarter of 2015.

Other operating income was \$0.8 million in the second quarter of 2016 compared to other operating expenses of \$19.5 million in the second quarter of 2015 as follows:

<i>\$ in thousands</i>	Three months ended June 30,	
	2016	2015
Foreign exchange loss	\$ 1,786	\$ 1,196
Provision/(reverse of provision) for doubtful trade and other receivables	(1,909)	157
Provision for court case penalty	—	18,049
Discount on settlement of trade payables	(1,009)	—
Others	320	48
Other operating expenses/(income)	<u>\$ (812)</u>	<u>\$ 19,450</u>

For the three months ended June 30, 2016, the Company reversed a provision for doubtful trade and other receivables of \$1.9 million (2015: provision of \$0.2 million was made) as a result of collecting long aged receivables in the second quarter of 2016. In addition, a settlement plan with a supplier of machinery was reached in the second quarter of 2016 and a discount on settlement of \$1.0 million was recorded accordingly.

Administration expenses were \$1.8 million in the second quarter of 2016 compared to \$2.0 million in the second quarter of 2015 as follows:

<i>\$ in thousands</i>	Three months ended June 30,	
	2016	2015
Corporate administration	\$ 693	\$ 512
Legal and professional fees	391	890
Salaries and benefits	677	472
Share-based compensation expense	12	47
Depreciation	53	40
Administration expenses	<u>\$ 1,826</u>	<u>\$ 1,961</u>

Administration expenses were lower for the second quarter of 2016 compared to the second quarter of 2015 primarily due to lower legal and professional fees were incurred in the second quarter of 2016.

Evaluation and exploration expenses were \$0.1 million in the second quarter of 2016. The Company continued to minimize evaluation and exploration expenditures in the second quarter of 2016 in order to preserve the Company's financial resources.

Finance costs were \$5.4 million and \$5.2 million respectively in the second quarter of 2016 and the second quarter of 2015. Finance costs primarily consisted of interest expense in respect of the \$250.0 million CIC Convertible Debenture (\$5.3 million for the second quarter of 2016 and \$5.1 million for the second quarter of 2015).

For the six months ended June 30, 2016

The Company recorded an \$23.6 million loss from operations in the first six months of 2016 compared to a \$46.9 million loss from operations in the first six months of 2015. The operations for the six months ended June 30, 2016 were impacted by continuing difficult market conditions and weak coal prices in China. Whilst the Company resumed production on March 30, 2015, the results for the first six months of 2015 were primarily impacted as a consequence of the tax investigation case in Mongolia as a provision of \$18.0 million was recorded in respect of the Tax Penalty during the six months ended June 30, 2015.

Revenue was \$23.1 million in the first six months of 2016 compared to \$4.5 million in the first six months of 2015. The Company sold 1.70 million tonnes of coal at an average realized selling price of \$14.92 per tonne in the first six months of 2016 compared to sales of 0.37 million tonnes at an average realized selling price of \$15.15 per tonne in the first six months of 2015. The benefit of the improved product mix has been more than offset by continued declining prices for the first six months of 2016 when compared to the first six months of 2015.

The Company's revenue is presented net of royalties and selling fees. With the changes affecting the royalty regime in Mongolia, the Company's effective royalty rate for the first six months of 2016, based on the Company's average realized selling price of \$14.92 per tonne, was 7.0% or \$1.05 per tonne compared to 18.0% or \$2.73 per tonne based on the average realized selling price of \$15.15 per tonne in the first six months of 2015.

Cost of sales was \$42.2 million in the first six months of 2016 compared to \$29.5 million in the first six months of 2015.

<i>\$ in thousands</i>	Six months ended June 30,	
	2016	2015
Operating expenses	\$ 18,533	\$ 6,498
Share-based compensation expense/(recovery)	(8)	32
Depreciation and depletion	9,832	1,141
Impairment of coal stockpile inventories	<u>5,706</u>	<u>3,111</u>
Cost of sales from mine operations	34,063	10,782
Cost of sales related to idled mine assets	<u>8,122</u>	<u>18,729</u>
Cost of sales	<u>\$ 42,185</u>	<u>\$ 29,511</u>

Operating expenses in cost of sales were \$18.5 million in the first six months of 2016 compared to \$6.5 million in the first six months of 2015. The increase in operating expenses is primarily related to the increase in sales volume from 0.37 million tonnes in the first six months of 2015 to 1.70 million tonnes in the first six months of 2016.

Cost of sales in the first six months of 2016 and the first six months of 2015 included coal stockpile impairments of \$5.7 million and \$3.1 million, respectively, to reduce the carrying value of the Company's coal stockpiles to their net realizable value. The coal stockpile impairments recorded in both 2016 and 2015 reflect the challenging coal market conditions and primarily related to the Company's higher-ash products.

Cost of sales related to idled mine asset costs primarily consisted of period costs, which were expensed as incurred and primarily included depreciation expense. Cost of sales related to idled mine assets in the first six months of 2016 included \$8.1 million related to depreciation expenses for idled equipment (2015: \$15.8 million). Idled mine asset costs decreased in the first six months of 2016 compared to the first six months of 2015 as a result of the period of curtailment until March 30, 2015 when mining operations recommenced. However, neither the production plan for the first six months of 2016 nor for the period from March 30, 2015 until June 30, 2015 fully utilized the Company's existing mining fleet, therefore, idled mine asset costs continued to be incurred.

Other operating expenses were \$0.9 million in the first six months of 2016 compared to \$18.5 million in the first six months of 2015.

<i>\$ in thousands</i>	Six months ended June 30,	
	2016	2015
Foreign exchange loss	\$ 1,514	\$ 138
Provision for doubtful trade and other receivables	2	157
Provision for court case penalty	–	18,049
Discount on settlement of trade payables	(1,009)	–
Others	392	135
Other operating expenses	<u>\$ 899</u>	<u>\$ 18,479</u>

The Company recognized an expense for the provision of the Tax Penalty in respect of the tax investigation case in Mongolia. The Tax Penalty amounts to MNT35.3 billion (approximately \$18.0 million at June 30, 2015).

Administration expenses were \$3.5 million for the first six months of 2016 compared to \$3.4 million in the first six months of 2015.

<i>\$ in thousands</i>	Six months ended June 30,	
	2016	2015
Corporate administration	\$ 1,158	\$ 958
Legal and professional fees	895	1,365
Salaries and benefits	1,320	852
Share-based compensation expense	5	147
Depreciation	90	66
Administration expenses	<u>\$ 3,468</u>	<u>\$ 3,388</u>

Evaluation and exploration expenses were \$0.1 million in both the first six months of 2016 and the first six months of 2015. The Company continued to minimize evaluation and exploration expenditures in the first six months of 2016 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the first six months of 2016 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining and exploration licenses.

Finance costs were \$10.8 million and \$11.6 million in the first six months of 2016 and 2015 respectively. This primarily consisted of interest expense on the CIC Convertible Debenture (\$10.5 million for the first six months of 2016 and \$10.1 million for the first six months of 2015).

Finance costs for the first six months of 2015 also included \$1.3 million in respect of the unrealized fair value loss of the embedded derivative in the CIC Convertible Debenture. In comparison, in the first six months of 2016, the Company recorded within finance income an unrealized fair value gain of the embedded derivative in the CIC Convertible Debenture (\$0.3 million). The fair value of the embedded derivatives in the CIC Convertible Debenture is driven by many factors including: the Common Share price, U.S. Dollar and Canadian Dollar exchange rates and share price volatility.

Summary of Quarterly Operational Data

Quarter Ended	2016			2015			2014	
	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales (millions of tonnes)	-	0.06	0.04	0.16	0.02	-	0.02	-
Average realized selling price (per tonne) ⁽ⁱ⁾	\$ -	\$ 21.38	\$ 21.72	\$ 22.32	\$ 23.37	\$ -	\$ 26.77	\$ -
Standard semi-soft coking coal								
Coal sales (millions of tonnes)	0.52	0.58	0.12	0.31	0.11	0.05	0.14	0.31
Average realized selling price (per tonne) ⁽ⁱ⁾	\$ 16.27	\$ 18.42	\$ 18.91	\$ 19.10	\$ 19.97	\$ 17.95	\$ 18.32	\$ 17.41
Thermal coal								
Coal sales (millions of tonnes)	0.30	0.24	0.05	0.02	0.06	0.13	0.21	0.34
Average realized selling price (per tonne) ⁽ⁱ⁾	\$ 9.17	\$ 9.19	\$ 9.26	\$ 10.48	\$ 10.47	\$ 10.46	\$ 11.69	\$ 10.66
Total								
Coal sales (millions of tonnes)	0.82	0.88	0.21	0.49	0.19	0.18	0.37	0.65
Average realized selling price (per tonne) ⁽ⁱ⁾	\$ 13.65	\$ 16.11	\$ 17.19	\$ 19.76	\$ 17.42	\$ 12.66	\$ 15.04	\$ 13.87
Raw coal production (millions of tonnes)	0.67	0.37	0.62	0.71	0.62	-	0.21	0.17
Direct cash costs of product sold (per tonne) ⁽ⁱⁱ⁾	\$ 12.47	\$ 7.88	\$ 6.55	\$ 17.46	\$ 15.57	\$ 8.68	\$ 8.09	\$ 7.38
Mine administration cash costs of product sold (per tonne) ⁽ⁱⁱ⁾	\$ 2.32	\$ 1.24	\$ 1.78	\$ 2.81	\$ 7.90	\$ 2.11	\$ 2.44	\$ 2.30
Total cash costs of product sold (per tonne) ⁽ⁱⁱ⁾	\$ 14.79	\$ 9.12	\$ 8.33	\$ 20.27	\$ 23.47	\$ 10.79	\$ 10.53	\$ 9.68
Other Operational Data								
Production waste material moved (millions of bank cubic meters)	1.82	0.72	1.08	2.33	3.62	-	0.55	0.20
Strip ratio (bank cubic meters of waste material per tonne of coal produced)	2.71	1.94	1.75	3.25	5.87	-	2.61	1.20
Lost time injury frequency rate ⁽ⁱⁱⁱ⁾	0.00	0.00	0.00	0.00	0.00	0.25	0.21	0.17

- (i) Average realized selling price is presented before deduction of royalties and selling fees.
- (ii) A non-IFRS financial measure, refer to "Non-IFRS Financial Measures" section. Cash costs of product sold exclude idled mine asset cash costs.
- (iii) Per 200,000 man hours and calculated based on a rolling 12 month average.

Summary of Quarterly Financial Results

The Company's financial statements are reported under IFRS issued by the IASB. The following tables provide highlights, extracted from the Company's annual and interim financial statements, of quarterly results for the past eight quarters:

\$ in thousands, except per share information								
Quarter Ended	2016			2015			2014	
	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Financial Results								
Revenue ^{(i), (ii)}	\$ 10,361	\$ 12,727	\$ 2,873	\$ 8,621	\$ 2,949	\$ 1,587	\$ 5,054	\$ 7,611
Cost of sales ⁽ⁱⁱ⁾	(23,105)	(19,080)	(12,072)	(22,108)	(11,833)	(17,678)	(19,757)	(23,922)
Gross loss excluding idled mine asset costs	(9,926)	(1,049)	(5,338)	(10,641)	(5,017)	(1,230)	(821)	(2,178)
Gross loss including idled mine asset costs	(12,744)	(6,353)	(9,199)	(13,487)	(8,884)	(16,091)	(14,703)	(16,311)
Other operating income/(expenses)	812	(1,711)	(1,093)	621	(19,450)	971	(3,386)	(2)
Administration expenses	(1,826)	(1,642)	(2,154)	(1,967)	(1,963)	(1,425)	(1,924)	(2,530)
Evaluation and exploration expenses	(52)	(47)	(46)	(40)	22	(81)	(911)	(122)
Impairment of property, plant and equipment	-	-	(92,651)	-	-	-	(8,603)	-
Loss from operations	(13,810)	(9,753)	(105,143)	(14,873)	(30,275)	(16,626)	(29,527)	(18,965)
Finance costs	(5,377)	(5,497)	(5,694)	(5,351)	(5,222)	(6,648)	(6,351)	(5,257)
Finance income	324	1	580	1,984	274	8	317	135
Share of earnings/(losses) of joint venture	256	83	(7)	99	151	(18)	(40)	(32)
Income tax expense	(23)	(235)	(2)	(1)	(1)	-	(40)	-
Net loss	(18,630)	(15,401)	(110,266)	(18,142)	(35,073)	(23,284)	(35,641)	(24,119)
Basic and diluted loss per share	\$ (0.07)	\$ (0.06)	\$ (0.44)	\$ (0.07)	\$ (0.15)	\$ (0.11)	\$ (0.19)	\$ (0.13)

(i) Revenue is presented after the deduction of royalties and selling fees.

(ii) Revenue and cost of sales relate to the Company's Ovoot Tolgoi Mine within the Coal Division operating segment. Refer to note 3 of the condensed consolidated interim financial statements for further analysis regarding the Company's reportable operating segments.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Management

The Company has in place a planning, budgeting and forecasting process to help determine the funds required to support the Company's normal operations on an ongoing basis and its expansionary plans.

Turquoise Hill Loan Facility

On May 25, 2014, the Company announced it had obtained the TRQ Loan in the form of a \$10 million revolving credit facility to meet its short term working capital requirements. The terms and conditions of this facility were filed on SEDAR at www.sedar.com on June 2, 2014. The key commercial terms of the facility were: an original maturity date of August 30, 2014 (subsequently extended); an interest rate of one month US dollar LIBOR Rate in effect plus 11% per annum; a commitment fee of 35% of interest rate payable quarterly in arrears on undrawn principal amount of facility and a front end fee of \$0.1 million.

During 2014 and 2015, the due date of the TRQ Loan, was extended several times and the credit limit has been reduced to \$3.8 million.

On May 16, 2016, the Company and Turquoise Hill entered into the May 2016 Deferral Agreement, whereby Turquoise Hill agreed to a limited and circumscribed deferral of repayment of all remaining amounts and obligations now and hereafter owing under the TRQ Loan to December 29, 2017 in accordance with the schedule of repayment set out below:

- The Company has agreed to effect monthly repayments on the last business day of each month in an amount of (i) \$0.15 million per month starting on May 31, 2016 and ending on April 28, 2017, (ii) \$0.2 million per month starting on May 31, 2017 and ending on December 29, 2017, and (iii) the remaining balance on December 29, 2017 (collectively (i) to (iii), the Repayments, and each, a Repayment). Upon receipt of each Repayment by Turquoise Hill, the aggregate amount of obligations owing under the TRQ Loan will be reduced by such equal amount;
- In the event that the Company fails to make any one of the Repayments in its entirety on or before the dates set out above, then the Company shall be in automatic and irremediable default of the obligations thereunder and under the TRQ Loan, shall immediately and irremediably lose all benefits of the May 2016 Deferral Agreement, and all then outstanding obligations shall become immediately due and payable to Turquoise Hill; and
- Interest shall continue to accrue on all outstanding obligations at 12-month US dollar LIBOR rate.

Under certain conditions, including the non-payment of interest amounts as the same become due, amounts outstanding under the TRQ Loan may be accelerated. Bankruptcy and insolvency events with respect to the Company or its material subsidiaries will result in an automatic acceleration of the indebtedness under the TRQ Loan. Subject to notice and cure periods, certain events of default under the TRQ Loan will result in acceleration of the indebtedness under such loan at the option of Turquoise Hill.

At June 30, 2016, the outstanding principal and accrued interest under this facility amounted to \$3.3 million and \$0.7 million respectively (at December 31, 2015, the outstanding principal and accrued interest amounted to \$3.4 million and \$0.6 million respectively).

The amount due in May to July 2016 has been paid as at August 15, 2016.

Short-term bridge loan

On October 27, 2015, the Company executed a \$10 million bridge loan agreement with an independent Asian based private equity fund. The interest rate is 8% per annum and payable upon the repayment of loan principal.

The Company repaid the first tranche of the short-term bridge loan of \$4.9 million on July 26, 2016. During June and July 2016, the Company drew the second tranche of \$5.0 million, \$1.5 million and \$3.5 million will mature in March and April 2017, respectively.

As at June 30, 2016, the outstanding balance for the short-term bridge loan was \$6.0 million (December 31, 2015: \$4.9 million) and the Company owed accrued interest of \$0.2 million (December 31, 2015: \$0.1 million).

Under certain conditions, including the non-payment of interest amounts as the same become due, amounts outstanding under the short-term bridge loan may be accelerated. Bankruptcy and insolvency events with respect to the Company or its material subsidiaries will result in an automatic acceleration of the indebtedness under the short-term bridge loan. Subject to notice and cure periods, certain events of default under the short-term bridge loan will result in acceleration of the indebtedness under the short-term bridge loan at the option of the lender.

Bank loan

On May 6, 2016, the Company entered into a \$2.0 million loan agreement with a Mongolian bank. The key commercial terms of the loan are as follows:

- Maturity on May 6, 2017;
- Interest rate of 15.8% per annum and payable monthly; and
- Certain items of property, plant and equipment of \$4.6 million were pledged.

As at June 30, 2016, the outstanding balance for the bank loan was \$2.0 million (December 31, 2015: nil) and the Company owed accrued interest of \$0.3 million (December 31, 2015: nil).

Going concern considerations

The Company's condensed consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least June 30, 2017 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with additional liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had cash of \$3.0 million at June 30, 2016 and the trade payables of the Company have started accumulating due to liquidity constraints. The aging profile has risen as compared to that as at December 31, 2015, as follows:

	As at	
	June 30, 2016	December 31, 2015
Less than 1 month	\$ 11,123	\$ 9,465
1 to 3 months	2,787	3,282
3 to 6 months	4,858	6,075
Over 6 months	20,214	12,095
Total trade and other payables	\$ 38,982	\$ 30,917

The Company may not be able to settle trade and other payables on a timely basis while continuing postponement in settling the trade payables may impact the mining operations of the Company and may result in potential lawsuits and/or bankruptcy proceedings may be filed against the Company. No such lawsuits or proceedings are pending as at August 15, 2016.

The Company anticipates that coal prices in China will remain under pressure in 2016, which will continue to impact the Company's margins and liquidity. The Company has enhanced the previous funding plan, in which, in addition to minimizing uncommitted capital expenditures, securing additional financing (which includes working capital financing from vendors) and longer term coal offtake agreements by building direct sales relationships with end customers, the Company has been negotiating with key vendors to lengthen the credit terms and extend the payable turnover cycle. Further, the Company has been exploring the utilization of trade financing in order to speed up the receivable collection cycle.

The measures mentioned above are intended to allow the Company to ramp up production to capacity, meet existing as well as upcoming trade and other payables obligations and the interest due under the CIC Convertible Debenture, the short-term bridge loan, the TRQ Loan and the bank loan, to meet its obligations as they fall due and achieve its business objectives in 2016.

These obligations include the tax penalty due to the Government of Mongolia (Refer to "Governmental and Regulatory Investigations" of section "Regulatory Issues and Contingencies" for details). However, there is no guarantee that the Company will be able to continue to successfully execute the measures mentioned above and secure other sources of financing. If it fails to do so, or is unable to secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through June 30, 2017, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations in order to satisfy its ongoing obligations and future contractual commitments, including the cash interest payments due under the CIC Convertible Debenture, the short-term bridge loan, the TRQ Loan and the bank loan. Unless the Company acquires additional sources of financing and/or funding in the short term, the ability of the Company to continue as a going concern is threatened. If the Company is unable to continue as a going concern it may be forced to seek relief under applicable bankruptcy and insolvency legislation. This could result in adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and such adjustments could be material.

Continuing delay in securing additional financing could ultimately result in an event of default of the CIC Convertible Debenture, the short-term bridge loan, the TRQ Loan and the bank loan, which if not cured within applicable cure periods in accordance with the terms of respective instruments, may result in the principal amounts owing and all accrued and unpaid interest becoming immediately due and payable upon notice to the Company by CIC, the lender of the short-term bridge loan, Turquoise Hill and lender of the bank loan, respectively.

Factors that impact the Company's liquidity are being closely monitored and include, but are not limited to, Chinese economic growth, market prices of coal, production levels, operating cash costs, capital costs, exchange rates of currencies of countries where the Company operates and exploration and discretionary expenditures.

CIC Convertible Debenture

In November 2009, the Company entered into a financing agreement with a wholly-owned subsidiary of the CIC for \$500 million in the form of a secured, convertible debenture bearing interest at 8.0% (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's shares) with a maximum term of 30 years. The CIC Convertible Debenture is secured by a charge over the Company's assets and certain subsidiaries. The financing was required primarily to support the accelerated investment program in Mongolia and up to \$120 million of the financing could also be used for working capital, repayment of debt due on funding, general and administrative expenses and other general corporate purposes. The Company's actual use of financing has been in accordance with the above.

On March 29, 2010, the Company exercised its right to call for the conversion of up to \$250.0 million of the CIC Convertible Debenture into approximately 21.5 million shares at a conversion price of \$11.64 (CAD\$11.88). As at June 30, 2016, the CIC owned, through its indirect wholly-owned subsidiary, approximately 19.4% of the issued and outstanding common shares of the Company.

On July 13, 2016, the Company executed deferral agreement with CIC which covers outstanding deferred cash interest obligations and associated costs of \$18.8 million as of July 13, 2016 and the next Issue Date Anniversary Cash Interest payment of \$8.1 million due on November 19, 2016. Pursuant to the deferral agreement, the Company has agreed to repay \$1.3 to \$1.4 million monthly from July to November 2016 and repay \$20.7 million on December 19, 2016. In consideration for the deferred payments, the Company will pay a deferral fee at a rate of 6.4% per annum to CIC.

Although CIC and the Company had finalized the terms of a deferral of CIC interest payments at the end of the second quarter, a formal written agreement had not been executed as at June 30, 2016. As a consequence, IAS 1 required the Company to classify the entire balance of the CIC Convertible Debenture as a current liability as at June 30, 2016, notwithstanding the fact that CIC had agreed to the terms of the deferral and had not indicated any intention to deliver notice of default or accelerate the maturity of the debenture. Following the execution of the deferral agreement on July 13, 2016, the CIC Convertible Debenture met the requirements of IAS 1. The Company anticipates that both the debt host and the fair value of the embedded derivative will be classified as a non-current liability going forward, unless a future event of default occurs under the terms of the CIC Convertible Debenture. The interest due in July 2016 has been paid as at August 15, 2016.

Under certain conditions, including the non-payment of interest amounts as the same become due, amounts outstanding under the CIC Convertible Debenture may be accelerated. Bankruptcy and insolvency events with respect to the Company or its material subsidiaries will result in an automatic acceleration of the indebtedness under the CIC Convertible Debenture. Subject to notice and cure periods, certain events of default under the CIC Convertible Debenture will result in acceleration of the indebtedness under such debenture at the option of CIC. Such other events of default include, but are not limited to, non-payment, breach of warranty, non-performance of obligations under the CIC Convertible Debenture, default on other indebtedness and certain adverse judgments.

Cash Position and Liquidity

As at June 30, 2016, the Company had cash of \$3.0 million compared to cash of \$0.4 million as at December 31, 2015. The Company had a working capital deficiency (excess current liabilities over current assets) of \$(147.5) million as at June 30, 2016 compared to \$(42.3) million of working capital deficiency as at December 31, 2015. As at August 15, 2016, the Company had cash of \$0.8 million.

As at June 30, 2016, the Company's gearing ratio was 0.01 (December 31, 2015: 0.33), which was calculated based on the Company's long term liabilities to total assets. As at June 30, 2016, the Company is not subject to any externally imposed capital requirements.

Ovoot Tolgoi Mine Impairment Analysis

Unchanged from the assessment made in several prior quarters, the Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at June 30, 2016. The impairment indicator was the continued weakness in the Company's share price during the six months ended of 2016 and the fact that the market capitalization of the Company, as at June 30, 2016, was significantly less than the carrying value of its net assets.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was compared to its "fair value less cost of disposal" ("FVLCTD") using a discounted future cash flow valuation model. The Company's cash flow valuation model has been updated to take into consideration the latest available information to the Company, including but not limited to, sales price, sales volumes, operating cost assumptions and life of mine coal production assumptions as at June 30, 2016. The Company's Ovoot Tolgoi Mine cash generating unit carrying value was \$193 million as at June 30, 2016.

Key estimates and assumptions incorporated in the valuation model included the following:

- Coal resources as estimated by a third party engineering firm;
- Long term price estimates from an independent market consulting firm;
- Forecasted sales volumes in line with production levels as per the updated 20-year mine plan;
- Updated life-of-mine coal production, strip ratio, capital costs and operating costs; and
- A post-tax discount rate of 13.9% based on an analysis of the market, country and asset specific factors.

Key sensitivities in the valuation model are as follows:

- For each 1% increase/(decrease) in the long term price estimates, the calculated fair value of the cash generating unit increases/(decreases) by approximately \$10.4/(\$10.4) million;
- For each 1% increase/(decrease) in the discount rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately (\$17.3)/\$20.0 million; and
- For each 1% increase/(decrease) in the cash mining cost estimates, the calculated fair value of the cash generating unit (decreases)/increases by approximately (\$6.9)/\$6.9 million.

The impairment analysis did not result in the identification of an impairment loss and no charge was required as at June 30, 2016. A decline of more than 1% in the long term price estimates, an increase of more than 1% in the post-tax discount rate or an increase of more than 1% in the cash mining cost estimates may trigger an impairment charge on the cash generating unit. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgments.

REGULATORY ISSUES AND CONTINGENCIES

Governmental and Regulatory Investigations

In 2014, the Company was subject to several investigations by Mongolia's Independent Authority Against Corruption (the "IAAC"). See "REGULATORY ISSUES AND CONTINGENCIES – Governmental and Regulatory Investigations" in the Company's Management Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") for the year ended December 31, 2015 available on SEDAR at www.sedar.com for further details.

In February 2015, the Mongolian Second District Criminal Court delivered a written verdict to the Company in respect of allegations of tax evasion by former employees of the Company (the "Tax Verdict"). The Tax Verdict pronounced the three former employees guilty and declared the Company's subsidiary, SouthGobi Sands LLC ("SGS"), to be financially liable as a "civil defendant" for a penalty (the "Tax Penalty") of MNT35.3 billion (approximately \$18.2 million on February 1, 2015). Following the refusal of the Supreme Court of Mongolia to hear the case on appeal in June 2015, the Tax Verdict has entered into force. The Tax Verdict is, however, not immediately payable and enforceable against SGS absent further actions prescribed by the laws of Mongolia. However, the Company made a corresponding provision for the court case penalty of \$18.0 million in the second quarter of 2015 (\$15.2 million as at June 30, 2016) given the Tax Verdict has entered into force.

On October 6, 2015, the Company was informed by its Mongolian banks (where the Restricted Funds were held) that they had received an official request from the Court Decision Implementing Agency of Mongolia ("CDIA") to transfer the Restricted Funds according to the court decision. \$1.2 million was transferred to CDIA from the frozen bank accounts in October and November 2015.

During the second quarter of 2016, \$1.5 million has been paid as a partial settlement of the Tax Penalty. The Company intends to make additional payments of \$1.2 million and \$3.8 million in 2016 and 2017, respectively.

The Company is currently seeking to resolve amicably the dispute giving rise to the Tax Verdict in a manner that is both appropriate having regard to the Company's limited financial resources and supportive of a positive environment for foreign investment in Mongolia. While negotiations with the Government of Mongolia have proceeded well to date, a final and binding resolution has not yet been reached, and further negotiations may be required in light of the change of government as a result of the Mongolian elections in June 2016. The Company continues to believe that an amicable solution can be reached. There can be no assurance, however, that any such resolution can ultimately be successfully negotiated by the Company either at all or on favourable terms, or that the terms of any resolution to which the Government would ultimately be prepared to agree

would not be materially adverse to the Company. In such case, this may result in an event of default under each of the CIC Convertible Debenture and the TRQ Loan and CIC and Turquoise Hill would each have the right to declare the full principal and accrued interest owing to such party immediately due and payable. Such an event of default under the CIC Convertible Debenture, the TRQ Loan, or the Company's inability to pay the Tax Penalty could result in voluntary or involuntary proceedings involving the Company (including bankruptcy).

The Company has provided \$15.2 million for the court case penalty at June 30, 2016. The decrease from \$18.0 million as at June 30, 2015 is as a result of subsequent transfers from frozen bank accounts of \$1.2 million, additional cash payments by the Company of \$1.5 million and foreign exchange adjustments.

Internal Investigations

Through its Audit Committee (comprised solely of independent directors), the Company conducted an internal investigation into possible breaches of law, internal corporate policies and codes of conduct arising from allegations raised in the context of investigations by Mongolian authorities. The former Chair of the Audit Committee also participated in a tripartite committee, comprised of the Audit Committee Chairs of the Company and Turquoise Hill and a representative of Rio Tinto plc. ("Rio Tinto"), focused on the investigation of a number of those allegations, including possible violations of anti-corruption laws. The tripartite committee substantially completed the investigative stage of its activities during the third quarter of 2013. There have been no significant developments in respect of the internal investigations since the completion of the investigation phase during the third quarter of 2013.

The investigations referred to above could result in one or more Mongolian, Canadian, the United States or other governmental or regulatory agencies taking civil or criminal action against the Company, its affiliates or its current or former employees. The likelihood or consequences of such an outcome are unclear at this time but could include financial or other penalties, which could be material, and which could have a material adverse effect on the Company.

In the opinion of management of the Company, at June 30, 2016 a provision for this matter is not required.

Mongolian IAAC investigation

In the first quarter of 2013, the Company was subject to orders imposed by the IAAC which placed restrictions on certain of the Company's Mongolian assets. The orders were imposed on the Company in connection with the IAAC's investigations of the Company as described above under "Governmental and Regulatory Investigations" and continued to be enforced by the Mongolian State Investigation Office. The restrictions on the assets were reaffirmed in the Tax Verdict and form part of the Tax Penalty payable by the Company.

The orders related to certain items of operating equipment and infrastructure and the Company's Mongolian bank accounts. The orders related to the operating equipment and infrastructure restricts the sale of these items; however, the orders do not restrict the use of these items in the Company's mining activities. The orders related to the Company's Mongolian bank accounts restricted the use of in-country funds but did not have any material impact on the Company's activities. The Restricted Funds were transferred to the Court Decision Implementing Agency of Mongolia as partial payment of the Tax Verdict in October and November 2015. See "Governmental and Regulatory Investigations" above.

Following a review by the Company and its advisers, it is the Company's view that the orders placing restrictions on certain of the Company's Mongolian assets did not result in an event of default as defined under the terms of the CIC Convertible Debenture. However, the enforcement of the orders could ultimately result in an event of default of the Company's CIC Convertible Debenture, which if it remains uncured for ten business days, would result in the principal amount owing and all accrued and unpaid interest will become immediately due and payable upon notice to the Company by CIC.

Class Action Lawsuit

In January, 2014, Siskinds LLP, a Canadian law firm, filed a class action (the "Class Action") against the Company, certain of its former senior officers and current directors, and its former auditors, Deloitte LLP, in the Ontario Superior Court of Justice (the "Ontario Court") in relation to the Company's restatement of financial statements as previously disclosed in the Company's public filings.

To commence and proceed with the Class Action, the plaintiff was required to bring the preliminary leave motion and to certify the Class Action as a class proceeding (the "Certification Motion"). The Court rendered its decision on the leave motion on November 5, 2015.

The Ontario Court dismissed the plaintiff's leave motion as against each of the former senior officers and former and current directors of the Company named in the Class Action on the basis that the "large volume of compelling evidence" proved the defense of reasonable investigation on the balance of probabilities and provided the basis for dismissing the Leave Motion as against them.

On May 24, 2016, the Ontario Superior Court of Justice granted the Company leave to appeal the decision made on November 5, 2015, which granted the plaintiff permission to commence an action claiming damages under the Ontario Securities Act with respect to the Company's restatement of financial statements as previously disclosed in the Company's public filings.

The plaintiff has also appealed. The Ontario Court of Appeal granted an adjournment of the plaintiff's original hearing date of June 27, 2016, pending the expected consolidation of the Divisional Court appeal brought on behalf of the Company. The parties have consented to a consolidation of the appeals in principle and are negotiating the terms of the Consent Order. It is expected that the Motion seeking consolidation on consent will be filed with the Court in August and the Court of Appeal will deal with the consolidation quickly. Assuming that the Court of Appeal will grant the consent order, the appeals will be perfected in September and heard together in the spring of 2017.

The Company disputes and is vigorously defending itself against these claims through independent Canadian litigation counsel retained by the Company and the other defendants for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of any potential losses, if any. However, the Company has judged a provision for this matter at June 30, 2016 is not required.

Toll wash plant agreement with Ejin Jinda

In 2011, the Company entered into an agreement with Ejin Jinda, a subsidiary of China Mongolia Coal Co. Ltd. to toll-wash coals from the Ovoot Tolgoi Mine. The agreement has a duration of five years from commencement of the contract and provides for an annual wet washing capacity of approximately 3.5 million tonnes of input coal.

Under the original agreement with Ejin Jinda, which required the commercial operation of the wet washing facility to commence on October 1, 2011, the additional fees payable by the Company under the wet washing contract would have been \$18.5 million. At each reporting date, the Company assesses the agreement with Ejin Jinda and has determined it is not probable that these \$18.5 million will be required to be paid as part of the initial contract.

Special Needs Territory in Umnugobi

On February 13, 2015, the whole of the Soumber mining license and a portion of SGS' exploration license No.9443X (the "License Areas") were included into a special protected area (to be further referred as Special Needs Territory "SNT") newly set up by the Umnugobi Aimag's Civil Representatives Khural (the "CRKh") to establish a strict regime on the protection of natural environment and prohibit mining activities in the territory of the SNT.

On July 8, 2015, SGS and the Chairman of the CRKh, in his capacity as the respondent's representative, reached an agreement (the "Amicable Resolution Agreement") to exclude the License Areas from the territory of the SNT in full, subject to confirmation of the Amicable Resolution Agreement by the session of the CRKh. The parties formally

submitted the Amicable Resolution Agreement to the appointed judge of the Administrative Court for her approval and requested a dismissal of the case in accordance with the Law of Mongolia on Administrative Court Procedure. On July 10, 2015, the judge issued her order approving the Amicable Resolution Agreement and dismissing the case, while reaffirming the obligation of CRKh to take necessary actions at its next session to exclude the License Areas from the SNT and register the new map of the SNT with the relevant authorities. Mining activities at the Soumber property cannot proceed until the License Areas are removed from the SNT.

On June 29, 2016, the Mongolian Parliament and Aimag's Civil Representatives Khural election was held. Thus the newly established CRKh will take necessary actions on SNT. The Company has not yet received any indication on the timing of the next session of the CRKh.

Commercial arbitration in Hong Kong

On June 24, 2015, First Concept served a notice of arbitration (the "Notice") on SGS in respect of a coal supply agreement dated May 19, 2014 as amended on June 27, 2014 (the "Coal Supply Agreement") for a total consideration of \$11.5 million. The arbitral proceedings (the "Arbitration") are deemed to have commenced on June 24, 2015, as the date when the respondent received the Notice.

The Company firmly rejects the allegations of First Concept in the Notice as lacking any merit. On October 26, 2015, the Company received the Statement of Claim from First Concept and will vigorously defend itself in the Arbitration, including claiming the relevant fees and damages from First Concept. The trial dates of the Arbitration are scheduled to be held in the fourth quarter of 2016.

There can be no assurance, however, that the Company will prevail in the Arbitration. Should SGS be unsuccessful in the Arbitration, the Company may not be able to re-pay the sum of \$11.5 million. In such case, this may result in an event of default under the CIC Convertible Debenture and CIC would have the right to declare the full principal and accrued interest owing thereunder immediately due and payable. Such an event of default under the CIC Convertible Debenture or the Company's inability to re-pay the sum of \$11.5 million to First Concept could result in voluntary or involuntary proceedings involving the Company (including bankruptcy). See Risk Factors in the Company's MD&A for the year ended December 31, 2015 available on SEDAR at www.sedar.com.

Notice of claim by former Chief Executive Officer

On June 30, 2015, the Company was served with a Notice of Civil Claim filed by the Company's former President and Chief Executive Officer, Alexander Molyneux, in the British Columbia Supreme Court. The claim relates to alleged breaches of Mr. Molyneux's employment agreement by the Company. In addition to the Company, Turquoise Hill, the

Company's largest shareholder at the time of Mr. Molyneux's employment, was also named in the claim.

Mr. Molyneux acted as the Company's President (from April 2009) and Chief Executive Officer (from October 2009) until September 2012, when the Company terminated his employment.

Mr. Molyneux is seeking damages in excess of \$1 million in his Notice of Claim. SouthGobi reserves its right to pursue all legal rights and remedies available to it in connection with the proceedings. The Company filed a response to Civil Claim and Counterclaim in September 2015. A trial date has not yet been set.

TRANSPORTATION INFRASTRUCTURE

On August 2, 2011, the State Property Committee of Mongolia awarded the tender to construct a paved highway from the Ovoot Tolgoi Complex to the Shivee Khuren Border Crossing (the "Paved Highway") to consortium partners NTB LLC and SGS (together referred to as "RDCC LLC"). The Company has an indirect 40% shareholding in RDCC LLC through SGS.

On October 26, 2011, RDCC LLC signed a concession agreement with the State Property Committee of Mongolia. RDCC LLC has the right to conclude a 17 year build, operate and transfer agreement under the Mongolian Law on Concessions.

On May 8, 2015, the commercial operation of the Paved Highway commenced and subsequently the unpaved highway which was previously used to transport coal through the Shivee Khuren Border Crossing was closed. The Paved Highway has significantly increased the safety of coal transportation, reduced environmental impacts and improved efficiency and capacity of coal transportation. The current toll rate is set at nine hundred (900) MNT per tonne of coal as compared to fifteen hundred (1,500) MNT as stated in the signed concession agreement between RDCC LLC and the State Property Committee of Mongolia.

On September 17, 2015, the Invest Mongolia Agency signed an amendment to the concession agreement with RDCC LLC to extend the exclusive right of ownership to 30 years.

The Paved Highway has a carrying capacity in excess of 20 million tonnes of coal per year.

For the three and six months ended June 30, 2016, RDCC LLC recognized toll fee revenue of \$1.4 million (2015: \$0.5 million) and \$2.2 million (2015: \$0.5 million), respectively.

OUTLOOK

Market conditions and prices for coal remained weak in China during the first half of 2016 despite modest recovery of the general coal market in China following implementation of China's national policy to reduce its coal production to accelerate supply-side reform to resolve the overcapacity issue in the medium term.

The Company will continue to reach out to end customers in order to enhance the sales profile and revenue growth.

In addition, the Company will continue to examine ways to improve operational efficiency and productivity to reduce costs. The Company is also evaluating various other business opportunities in addition to coal mining and trading in Mongolia to diversify the risk profile.

The Company remains well positioned in the market, with a number of key competitive strengths, including:

- **Bridge between Mongolia and China** – The Company is well positioned to capture the resulting business opportunities between the two countries given i) strong strategic support from its largest shareholders (China Cinda Asset Management Corporation Limited and CIC), which are both state-owned-enterprises in China; and ii) the Company's strong operational record during the last ten years in Mongolia and being one of the largest enterprises in Mongolia.
- **Strategic location** – The Ovoot Tolgoi Mine is located approximately 40km from China, which represents the main coal market. The Company has an infrastructure advantage, being approximately 50km from a major Chinese coal distribution terminal with rail connections to key coal markets in China.
- **Large resource base** – Following the updated mineral resource estimate for the Ovoot Tolgoi Project, the Company's aggregate coal resources include measured and indicated resources of 365 million tonnes and inferred resources of 285 million tonnes. In addition, most of the Company's coal resources have coking properties, including a mixture of semi-soft coking coal and hard coking coal.
- **Several growth options** – The Company has several growth options including the Soumber Deposit and Zag Suuj Deposit, located approximately 20km east and approximately 150km east of the Ovoot Tolgoi Mine, respectively.

Objectives

The Company's objectives for 2016 and the medium term are as follows:

- **Expand customer base with enhanced product mix** – The Company aims to strengthen the sales and logistics capabilities to expand the customer base further inland in China and to beneficiate the coal by washing.
- **Optimize cost structure** – The Company is focused on further cost reduction by improving productivity and operational efficiency while maintaining product quality and the sustainability of production.
- **Progress growth options** – Subject to available financial resources, the Company plans to further the development of the Soumber Deposit, while complying with all government requirements in relation to its licenses and agreements.
- **Diversify the risk profile of the Company** – The Company is evaluating various business opportunities besides coal mining and coal trading in Mongolia, including but not limited to power generation, contract mining and real estate. The Company aims to bridge into the new era of Mongolia prosperity committed to contribute to the long term development of Mongolia.
- **Operate in a socially responsible manner** – The Company is focused on maintaining the highest standards in health, safety and environmental performance.

NON-IFRS FINANCIAL MEASURES

Cash Costs

The Company uses cash costs to describe its cash production costs. Cash costs incorporate all cash production costs, which include direct and indirect costs of production, with the exception of idled mine asset costs and non-cash expenses which are excluded. Non-cash expenses include share-based compensation expense, impairments of coal stockpile inventories, depreciation and depletion of mineral properties.

The Company uses this performance measure to monitor its operating cash costs internally and believes this measure provides investors and analysts with useful information about the Company's underlying cash costs of operations. The Company believes that conventional measures of performance prepared in accordance with IFRS do not fully illustrate the ability of its mining operations to generate cash flows. The Company reports cash costs on a sales basis. This performance measure is commonly utilized in the mining industry.

The cash costs per tonne of product sold presented below may differ from cash costs per tonne of product produced depending on the timing of coal stockpile inventory turnover and impairments of coal stockpile inventories from prior periods.

Summarized Comprehensive Income Information

(Unaudited)

(Expressed in thousands of U.S. Dollars, except for share and per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Revenue	\$ 10,361	\$ 2,951	\$ 23,088	\$ 4,536
Cost of sales	<u>(23,105)</u>	<u>(11,835)</u>	<u>(42,185)</u>	<u>(29,511)</u>
Gross loss	(12,744)	(8,884)	(19,097)	(24,975)
Other operating income/(expenses)	812	(19,450)	(899)	(18,479)
Administration expenses	(1,826)	(1,961)	(3,468)	(3,388)
Evaluation and exploration expenses	<u>(52)</u>	<u>22</u>	<u>(99)</u>	<u>(56)</u>
Loss from operations	(13,810)	(30,273)	(23,563)	(46,898)
Finance costs	(5,377)	(5,222)	(10,845)	(11,605)
Finance income	324	273	296	16
Share of earnings of a joint venture	<u>256</u>	<u>151</u>	<u>339</u>	<u>133</u>
Loss before tax	(18,607)	(35,071)	(33,773)	(58,354)
Current income tax expense	<u>(23)</u>	<u>(1)</u>	<u>(258)</u>	<u>(1)</u>
Net loss attributable to equity holders of the Company	<u>(18,630)</u>	<u>(35,072)</u>	<u>(34,031)</u>	<u>(58,355)</u>
Other comprehensive income to be reclassified to profit or loss in subsequent periods				
Exchange difference on translation of foreign operation	<u>879</u>	<u>—</u>	<u>367</u>	<u>—</u>
Net comprehensive loss attributable to equity holders of the Company	<u>\$ (17,751)</u>	<u>\$ (35,072)</u>	<u>\$ (33,664)</u>	<u>\$ (58,355)</u>
Basic and diluted loss per share	\$ (0.07)	\$ (0.15)	\$ (0.13)	\$ (0.25)

Summarized Financial Position Information*(Unaudited)**(Expressed in thousands of U.S. Dollars)*

	As at	
	June 30, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 2,985	\$ 377
Trade and other receivables	13,628	8,196
Inventories	27,199	32,262
Prepaid expenses and deposits	4,223	1,487
Total current assets	48,035	42,322
Non-current assets		
Property, plant and equipment	201,192	222,485
Investment in a joint venture	25,884	25,667
Total non-current assets	227,076	248,152
Total assets	\$ 275,111	\$ 290,474
Equity and liabilities		
Current liabilities		
Trade and other payables	\$ 38,982	\$ 30,917
Provision for court case penalty	15,219	16,468
Deferred revenue	14,343	11,683
Interest-bearing borrowings	12,112	8,905
Current portion of convertible debenture	114,888	16,671
Total current liabilities	195,544	84,644
Non-current liabilities		
Convertible debenture	—	91,988
Decommissioning liability	2,543	3,149
Total non-current liabilities	2,543	95,137
Total liabilities	198,087	179,781

	As at	
	June 30,	December 31,
	2016	2015
Equity		
Common shares	1,094,619	1,094,618
Share option reserve	52,286	52,292
Exchange reserve	(908)	(1,275)
Accumulated deficit	(1,068,973)	(1,034,942)
Total equity	77,024	110,693
Total equity and liabilities	\$ 275,111	\$ 290,474
Net current liabilities	\$ (147,509)	\$ (42,322)
Total assets less current liabilities	\$ 79,567	\$ 205,830

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the six months ended June 30, 2016.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the six months ended June 30, 2016, applied the principles and complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Main Board Listing Rules of Hong Kong Stock Exchange.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES

The Company has adopted policies regarding directors' securities transactions in its Corporate Disclosure, Confidentiality and Securities Trading policy that has terms that are no less exacting than those set out in the Model Code of Appendix 10 of the rules governing the listing of securities on the Hong Kong Stock Exchange.

The Board of Directors confirms that all of the Directors of the Company have complied with the required policies in the Company's Corporate Disclosure, Confidentiality and Securities Trading policy throughout the six months ended June 30, 2016.

REVIEW OF INTERIM RESULTS

The condensed consolidated interim financial statements for the Company for the three and six months ended June 30, 2016, were reviewed by the Audit Committee of the Company.

The Company's results for the quarter ended June 30, 2016, are contained in the unaudited Condensed Consolidated Interim Financial Statements and MD&A, available on the SEDAR website at www.sedar.com and the Company's website at www.southgobi.com.

ABOUT SOUTHGOBI

SouthGobi, listed on the Toronto and Hong Kong stock exchanges, owns and operates its flagship Ovoot Tolgoi coal mine in Mongolia. It also holds the mining and exploration licences of its other metallurgical and thermal coal deposits in South Gobi Region of Mongolia. SouthGobi produces and sells coal to customers in China.

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Forward-Looking Statements: Except for statements of fact relating to the Company, certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterized by words such as “plan”, “expect”, “project”, “intend”, “believe”, “anticipate”, “could”, “should”, “seek”, “likely”, “estimate” and other similar words or statements that certain events or conditions “may” or “will” occur. Forward-looking statements are based on the opinions and estimates of management at the times the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These statements include, but are not limited to, statements regarding:

- the Company continuing as a going concern and its ability to realize its assets and discharge its liabilities in the normal course of operations as they become due; adjustments to the amounts and classifications of assets and liabilities in the Company’s financial statements and the impact thereof;
- the Company’s expectations of sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments, including the Company’s ability to secure additional funding and to meet its obligations under each of the CIC Convertible Debenture, the TRQ Loan, the short-term bridge loan and the bank loan, as the same become due;
- the Company’s anticipated financing needs, development plans and future production levels;
- the ability of the Company to satisfy the Tax Penalty (as described under the heading “REGULATORY ISSUES AND CONTINGENCIES – Governmental and Regulatory Investigations” in this press release);
- the results and impact of the Class Action (as described under the heading “REGULATORY ISSUES AND CONTINGENCIES – Contingencies – Class Action Lawsuit” in this press release);
- the potential effect of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining is purportedly prohibited on the Company’s mining licenses;
- the possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the CIC Convertible Debenture;
- the outcome of the issues described under the heading “REGULATORY ISSUES AND CONTINGENCIES” in this press release;
- the estimates and assumptions included in the Company’s impairment analysis and the possible impact of changes thereof;

- the possible impacts of changes in useful life or depreciation rates on depreciation expenses;
- the potential effects of a difference between future cash flows and profits from estimates;
- the ability for higher-ash product to be sold as a thermal coal product and the type of coal products being produced;
- expected impacts of the remaining administrative restrictions on certain of the Company's Mongolian assets and the anticipated impact on the Company's activities;
- the Company's anticipated business activities, planned expenditures and corporate strategies;
- the Company's intention to develop markets for its semi-soft coking coal brands and to pursue long-term supply offtake agreements with end users in China;
- the ability of the Company to enhance the quality of its coal products through a beneficiation process based on wet washing;
- the agreement with Ejin Jinda and payments thereunder;
- future coal market conditions in China and the related impact on the Company's margins and liquidity;
- costs relating to anticipated capital expenditures and the 2016 exploration program;
- business outlook, including the outlook for the remainder of 2016 and beyond;
- the outcome of arbitration proceedings involving the Company and First Concept with respect a coal supply agreement and payments thereunder;
- the outcome of legal proceedings involving the Company and its former Chief Executive Officer, Mr. Alexander Molyneux;
- the Company's objectives for the remainder of 2016 and beyond;
- the capacity and future toll rate of the Paved Highway;
- plans for the progress of mining license application processes;
- anticipated stock market conditions, the future prices of the Company's common shares (the "Common Shares") and ownership thereof;

- the impact of amendments to, or the application of, the laws of Mongolia and other countries in which the Company carries on business;
- the evaluation, and potential pursuit of, business opportunities other than coal mining and coal trading in Mongolia, including but not limited to power generation, contract mining and real estate;
- the impact of the Company's activities on the environment and actions taken for the purpose of mitigation of potential environmental impacts and planned focus on health, safety and environmental performance;
- the future mining operations at the Soumber Deposit being allowed to share the existing infrastructure with the Ovoot Tolgoi Mine;
- greenfield development options with the Soumber Deposit and Zag Suuj Deposit; and
- other statements that are not historical facts.

This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. Except as required by law, the Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. The reader is cautioned not to place undue reliance on forward-looking statements.

The English text of this press release shall prevail over the Chinese text in case of inconsistencies.